

Section 86.1 Information for Canadian Shareholders of Graham Holdings Company and Additional Information for Québec Income Tax Filers

On July 1, 2015, Graham Holdings Company completed a reorganization in which it spun-off its subsidiary Cable One, Inc. If you received your Cable One, Inc. common shares in this reorganization, this summary contains important Canadian tax information that may be relevant to you.¹

Where a Canadian shareholder of share(s) of a foreign company (“distributing company”) receives a distribution of shares (“spin-off shares”) as a result of the distributing company’s eligible corporate reorganization (“spin-off”), section 86.1 of the federal Canadian *Income Tax Act* may permit such a spin-off share distribution to pass to the shareholder on a rollover (i.e., tax - deferred) basis, provided the shareholder complies with certain filing requirements specified in section 86.1.

This memo provides a basic overview of the filing requirements pursuant to section 86.1 as they may apply to the July 1, 2015 **Graham Holdings Company** (“GHC”) spin-off of **Cable One, Inc.** (“Spinco”), which has been approved by the Canada Revenue Agency as eligible for Canadian tax purposes. Additional information for Québec income tax filers is provided in a separate section below.

PLEASE NOTE THAT THIS MEMO PROVIDES ONLY A BASIC OVERVIEW OF THE FILING REQUIREMENTS AND OFFERS NO ACCOUNTING OR TAX GUIDANCE, AS A TAX ADVISOR SHOULD BE CONSULTED FOR THOSE PURPOSES.

A Summary of the Spin-Off Events

GHC’s July 1, 2015 (“Distribution Date”) transactions affecting the Canadian shareholders involved:

- On the Distribution Date, 100% of Spinco common shares were distributed, through a pro-rata distribution, to holders of GHC common shares.
- On the Distribution Date, each GHC common shareholder received one (1) Spinco common share for every one (1) GHC Class A or Class B common shares owned at the close of business on June 15, 2015.

Basic Overview - Section 86.1 Election Requirements

In order for the spin-off shares on an eligible distribution to pass to the shareholder on a rollover basis, paragraph 86.1(2)(f) of the *Income Tax Act* requires the shareholder to provide the following documentation and information to the Canada Revenue Agency (“CRA”):

1. A letter addressed to the CRA stating that the taxpayer wishes section 86.1 of the *Income Tax Act* to apply to the distribution (the taxpayer must use a letter as there is currently no prescribed form for this specific election);
2. The letter must be filed with the taxpayer’s income tax return within the prescribed filing time for the taxation year in which the distribution took place (late filings may be accepted, but penalties may apply);

¹ Certain taxpayer are not affected by the filing requirements pursuant to 86.1 (i.e. non-residents of Canada, shareholders that held GHC shares in an RRSP, RRIF, TFSA or other Canadian tax-exempt plan).

3. The letter must state the following information about the shares of the distributing company (“original shares”) the taxpayer owned **immediately before** the distribution of the spin-off shares to the shareholder:
 - i. The number of the original shares owned;
 - ii. The aggregate adjusted cost base of all the original shares to the taxpayer (i.e. the price the shareholder paid on acquisition of all the taxpayer’s GHC common shares);
 - iii. The aggregate fair market value of the original shares (see section “Determining the Fair Market Value of the Shares” below);

4. The letter must state the following information about the spin-off and original shares the taxpayer owned **immediately after** the distribution:
 - i. The number of the original shares owned;
 - ii. The aggregate fair market value of the original shares (see section “Determining the Fair Market Value of the Shares” below);
 - iii. The number of the spin-off shares received;
 - iv. The aggregate fair market value of the spin-off shares (see section “Determining the Fair Market Value of the Shares” below).

For greater certainty, the original and spin-off shares are the GHC Class A and Class B Common shares, and Spinco common shares, respectively.

Determining the Cost of the Shares

The cost of the original shares is determined by the allocation of the tax basis between a GHC common share and Spinco common share based on their relative fair market value immediately after the distribution of the Spinco common shares. The fair market value determination is not prescribed or defined under the *Income Tax Act*. The approach taken by GHC is based on the fair market values of GHC common shares and Spinco common shares determined by averaging their respective high and low trading prices on the day of the distribution. See below for the allocation of the fair market value between GHC and Spinco common shares:

Share price as of July 1, 2015	Average	%
GHC	US\$678.53	62.04%
Spinco	US\$415.24	37.96%

Additional Information for Québec Income Tax Filers

Québec income tax filers who wish to take advantage of the section 86.1 rollover for the GHC distribution for both, the federal and Québec tax purposes, should enclose, in their Québec income tax returns, a copy of the section 86.1 election letter addressed to the CRA and also a separate letter addressed to Revenu Québec explaining that the enclosed copy of the letter to the CRA is in compliance with subsection 578.1(f) of the Québec *Taxation Act* and sets out the information required by subsection 578.3(2) of the Québec *Taxation Act*. Québec filers should additionally enclose a copy of the CRA letter which confirms the eligibility of the July 1, 2015 GHC spin-off.